

1999 Country Reports on Economic Policy and Trade Practices

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MOROCCO

Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999	1/
<i>Income, Production and Employment:</i>				
Nominal GDP 2/	33,160	36,179	35,573	
Real GDP Growth (pct) 3/	-2.2	6.3	0.2	
GDP by Sector:				
Agriculture	5,093	5,911	N/A	
Manufacturing	5,857	6,040	N/A	
Services	6,451	6,833	N/A	
Government	4,428	4,378	N/A	
Per Capita GDP (US\$)	1,218	1,303	1,250	
Labor Force (urban 000s)	5,068	5,137	5,160	
Urban Unemployment Rate (pct)	16.9	19.1	21.5	
<i>Money and Prices (annual percentage growth):</i>				
Money Supply Growth (M2)	9.2	7.7	9.5	
Consumer Price Inflation	1.0	2.7	1.3	
Exchange Rate (DH/US\$ annual average)				
Official	9.60	9.59	9.90	
Parallel	N/A	N/A	N/A	
<i>Balance of Payments and Trade:</i>				
Total Exports FOB 4/	6,985	7,279	7,060	
Exports to U.S. 4/	164	198	220	
Total Imports CIF 4/	9,449	10,255	10,717	
Imports from U.S. 4/	509	643	740	
Trade Balance 4/	-2,464	-2,974	-3,657	
Balance with U.S. 4/	-345	-445	-520	
External Public Debt (US\$ billions)	19.1	19.3	18.0	
Fiscal Deficit/GDP (pct) 5/	3.3	3.5	2.3	
Current Account Deficit/GDP (pct)	1.1	3.1	2.5	
Debt Service Payments/GDP (pct)	8.5	8.3	8.1	
Gold and Foreign Exchange Reserves	4,234	4,450	6,130	

Aid from U.S. 5/	13.5	17.6	16.4
Aid from All Other Sources	1,750	N/A	N/A

1/ 1999 figures are all estimates based on available monthly data in November.

2/ GDP at factor cost.

3/ Percentage changes calculated in local currency.

4/ Merchandise trade.

5/ Fiscal Year Basis

1. General Policy Framework

Morocco boasts the largest phosphate reserves in the world, a diverse agricultural and fisheries sector, a high-potential tourism industry, a growing manufacturing sector, and a considerable inflow of funds from Moroccans working abroad. Most of Morocco's trade is with Europe, with France alone accounting for about a quarter of Morocco's imports and a third of its exports.

The government has pursued market-oriented economic reforms since the early 1980s. It has restrained spending, revised the tax system, reformed the banking system, pursued appropriate monetary policies, eased import restrictions, lowered tariffs, launched a privatization program and liberalized foreign exchange controls. Monetary policy serves primarily to maintain Morocco's exchange rate. These reforms have helped restore macroeconomic equilibria: the current account deficit, fiscal deficit and inflation rates are well below their early 1980s levels. Economic growth has been modest, with wide year-to-year fluctuations due to heavy dependence on agriculture and vulnerability to cyclical droughts.

With the passing of power from the late King Hassan II to King Mohamed VI, Morocco has signaled its determination to intensify the economic reform process, and among other things, to streamline foreign and domestic investment procedures and devolve more power to regional governments. Morocco launched a privatization program in 1992 and since then 60 out of 114 state enterprises have been sold, raising \$1.7 billion. Among the companies currently slated for privatization are sugar plants, hotels, and banks. The national monopoly telecommunications firm Maroc Telecom and the national airline Royal Air Maroc are also scheduled for partial privatization in 2000, either through the Casablanca Stock Exchange or through strategic partnerships. The Moroccan Government has embraced private financing for the construction and operation of some highways, a new port for Tangier and other large infrastructure projects, including a \$1.5 billion electric power project awarded to a joint venture between an American and a European firm. American firms are currently competing for a concession to provide water and electricity distribution services to two cities in northern Morocco.

Real GDP grew 6.3 percent in 1998 following a good harvest. Agricultural GDP increased by 16 percent in 1998. Following poor rains during the 1998-99 growing season, real GDP growth is expected to remain stagnant in 1999. A good start to the current rainy season has raised hopes for increased grain production for 2000. Morocco has a comfortable level of foreign

exchange reserves, thanks in part to the recent sale for \$1.1 billion of a second license to provide cellular phone services. This large influx of money has also resulted in the recent cancellation of new government debt issues. The government has been implementing incremental liberalization of exchange controls for Moroccan residents, most recently relaxing the amount of foreign currency Moroccan citizens can purchase in order to obtain medical treatment abroad. Morocco's chronic merchandise trade deficit grew in 1998 as imports increased by 7.9 percent while exports remained stagnant. Receipts from remittances and tourism have increased steadily over the past three years, with tourism receipts up 19.3 percent thus far in 1999. Foreign investment for 1998 fell by 63.2 percent over the record 1997 levels, but appears to be recovering in 1999.

2. Exchange Rate Policies

The Moroccan Dirham is convertible for all current transactions (as defined by the International Monetary Fund's Article VIII) as well as for some capital transactions, notably capital repatriation by foreign investors. Foreign exchange is routinely available through commercial banks for such transactions on presentation of documents. Moroccan companies may borrow abroad without prior government approval. Investment abroad by Moroccan individuals or corporations is subject to approval by the Foreign Exchange Board. Approval is routinely denied for projects that do not directly benefit Morocco. Private Moroccans continue to face several foreign exchange restrictions, notably against use of international credit cards. This makes it nearly impossible for Moroccans to use e-commerce to purchase goods internationally.

The central bank sets the exchange rate for the dirham against a basket of currencies of its principal trading partners, particularly the French Franc and other European currencies. The rate against the basket has remained steady since a nine percent devaluation in May 1990, with changes in the rates of individual currencies reflecting changes in cross rates. Since Morocco's average inflation rate throughout the 1990s has been greater than the other currencies, many economists believe that the dirham is now overvalued. The government argues consistently against devaluation. The large weight given to European currencies in the basket results in a greater volatility of the dollar than the European currencies against the dirham. This increases the foreign exchange risk of importing from the United States as compared to importing from Europe. The IMF has urged to GOM to introduce greater flexibility into its exchange rate regime, to help boost exports and promote growth.

3. Structural Policies

The 1992 Foreign Trade Law committed Morocco to the principles of free trade, reversing the legal presumption of import protection. It replaced quantitative restrictions with tariffs (both ad valorem and variable) on the importation of politically sensitive items such as flour, sugar, tea and cooking oil.

Interest rate policy has also changed in recent years. In 1994, the government revised the

interest rate ceilings on bank loans. The new ceiling is set at a three to four percent markup over the rate received on deposits, including the below-market rates on required deposits. The effect of the change is to lower the interest rate ceilings, although real rates remain high.

Morocco has a three-part tax structure consisting of a value-added tax, a corporate income tax, and an individual income tax. The investment code passed by the parliament in October 1995 reduced corporate and individual income taxes, as well as many import duties. The code also eliminated the value-added tax on certain capital goods and equipment. A plethora of minor taxes can significantly raise the cost of certain imported goods.

4. Debt Management Policies

Morocco's foreign debt burden has declined steadily as a result of prudent borrowing and active debt management in recent years. Foreign debt fell from 128 percent of GDP in 1985 to about 53 percent of GDP in 1998. Similarly, debt service payments before rescheduling, as a share of goods and services exports, fell from over 58 percent in 1985 to about 25 percent in 1998. The last Paris Club rescheduling took place in 1992. The government does not foresee the need for further Paris Club rescheduling, although it is pursuing other forms of debt relief with major official creditors. Since 1996, France and Spain have authorized debt-equity swaps covering 20 percent of eligible Paris Club debt. In October 1999, the Paris Club endorsed an increase to 30 percent in the debt-swap ceiling.

5. Aid

Less than 10 percent of the U.S. aid listed in the economic indicators section for 1997 or 1998 was military assistance. In 1999, approximately 25 percent of the aid was in the form of military assistance. In addition to the direct assistance listed, the United States leveraged \$15 million in housing guaranty funds in 1997, and \$11.5 million in 1999.

6. Significant Barriers to U.S. Exports

Import Licenses: Morocco has eliminated import-licensing requirements on a number of items in recent years. Licensing requirements remain for firearms, used clothing, used tires and explosives.

Tariffs: Tariffs have been gradually reduced in recent years. The maximum tariff for most goods is 35 percent, although the range of tariffs is 2.5 percent to 300 percent, with the highest tariffs applied to cereals. Despite the downward trend, tariffs on some products have increased as quantitative restrictions were replaced with higher tariffs. For example, following the elimination of licensing requirements, tariffs on dairy products, cereals, vegetable oils and sugar have increased. There is also a 10 to 15 percent surtax on imports of most goods as well as a value added tax ranging from 0 to 20 percent. Tariffs on most industrial products imported from the European Union will be gradually eliminated once the Association Agreement is implemented,

with a target date of 2010 for complete elimination.

Services Barriers: Barriers in the services sector have been falling as Morocco conforms to its WTO engagements. In November 1989, parliament abrogated a 1973 law requiring majority Moroccan ownership of firms in a wide range of industries, thus eliminating what had been a barrier to U.S. investment in Morocco. In 1993, the Moroccan Government repealed a 1974 decree limiting foreign ownership in the petroleum refining and distribution sector, which allowed Mobil Oil to buy back the government's 50 percent share of Mobil's Moroccan subsidiary in 1994. Foreign companies cannot acquire a majority stake in firms in the insurance sector.

Standards, Testing, Labeling and Certification: Morocco applies approximately 500 industrial standards based on international norms. These apply primarily to packaging, metallurgy and construction. Sanitary regulations apply to virtually all food imports. Meat should be slaughtered according to Islamic law. The government does not require locally registered firms to apply ISO 9000 usage. The use of the metric system is mandatory.

Investment Barriers: The government actively encourages foreign investment. The parliament passed a new investment code in 1995 which applies equally to foreign and Moroccan investors, except for the foreign exchange provisions which favor foreign investors. Unlike the previous sectoral investment codes, the advantages offered under the new code are to be granted automatically. There are no foreign investor performance requirements, although the new code provides income tax breaks for investments in certain regions, and in crafts and export industries. Foreign investment is prohibited in certain sectors of the economy, including the purchase of agricultural land and investment in the phosphate sector.

Government Procurement Practices: While government procurement regulations allow for preferences for Moroccan bidders, the effect of the preference on U.S. companies is limited. The Moroccan government has placed an increasing emphasis on transparency. Virtually all of the government procurement contracts that interest U.S. companies are large projects for which the competition is non-Moroccan (mainly European) companies. Many of these projects are financed by multilateral development banks, which impose their own nondiscriminatory procurement regulations. U.S. companies sometimes have difficulty with the requirement that bids for government procurement be in French.

Customs Procedures: In principle, customs procedures are simple and straightforward, but in practice they are sometimes marked by delays. The Customs Administration has launched a program to speed up the customs clearance process. Average processing time has fallen from several days to several hours. A commercial invoice is required, but no special invoice form is necessary. Certification as to country of origin of the goods is required.

7. Export Subsidies Policies

There are no direct export subsidies, although the 1995 investment code provides a five-

year corporate income tax holiday for export industries. Morocco has a temporary admission scheme that allows for suspension of duties and licensing requirements on imported inputs for export production. This scheme includes indirect exporters (local suppliers to exporters). In addition, a "prior export" program exists, whereby exporters can claim a refund on duties paid on imports that were subsequently transformed and exported.

8. Protection of U.S. Intellectual Property

Morocco has a relatively complete regulatory and legislative system for the protection of intellectual property, but strong enforcement is lacking. Morocco is not on the Special 301 Watch List or Priority Watch List. Morocco is a member of the World Trade Organization (WTO) and is expected to be in compliance with its obligations under the Trade Related Aspects of Intellectual Property (TRIPs) Agreement by early 2000. Morocco is also a member of the World Intellectual Property Organization and is a party to the Berne Convention for the protection of literary and artistic works (copyright), The Universal Copyright Convention, the Paris Convention for the protection of industrial property (patent and trademark), the Brussels Satellite Convention, and the Madrid Agreement Concerning the International Registration of Marks (as revised at Nice, 1957).

Copyright: The Moroccan Parliament is considering legislation that will increase protection for computer software. Morocco's new commercial courts recently ruled in Microsoft's favor in two cases against software pirates.

Patents: A quirk dating from the era of the French and Spanish protectorates requires patent applications for industrial property to be filed in both Casablanca and Tangier for complete protection. The proposed 1996 industrial property code, expected to be implemented by 2000, will amend this provision and require that applications be filed only in Casablanca.

Trademarks: Counterfeiting of clothing, luggage, and other consumer goods is illegal, but not uncommon. Counterfeiting is primarily for local sales rather than for export. Trademarks must be filed in both Casablanca and Tangier, although this too will be amended in the new law.

9. Worker Rights

a. The Right of Association: Workers are free to form and join unions throughout the country. The right is exercised widely but not universally. About six percent of Morocco's nine million workers are unionized, mostly in the public sector. The unions are not completely free from government interference. Narrowly focused strikes continue to occur. Work stoppages are normally intended to advertise grievances and last 48-72 hours. Unions maintain ties to international trade secretariats.

b. The Right to Organize and Bargain Collectively: The protection of the right to organize and bargain collectively is implied in the Constitution and Labor Law. The government

protections are generally not enforced in the informal sector. Observance of labor laws in larger companies and in the public sector is more consistent. The laws governing collective bargaining are inadequate. Collective bargaining has been a long-standing tradition in some parts of the economy, notably heavy industry, and is becoming more prevalent in the service sector.

There is no law specifically prohibiting anti-union discrimination. Employers commonly dismiss workers for union activities regarded as threatening to employer interest. The courts have the authority to reinstate such workers, but are unable to enforce rulings that compel employers to pay damages and back pay.

c. Prohibition of Forced or Compulsory Labor: Forced or compulsory labor is prohibited in Morocco.

d. Minimum Age for Employment of Children: The law prohibits the employment of any child under 12 years of age. Special regulations cover the employment of children between the ages of 12 and 16. In practice, however, children are often apprenticed before age 12, particularly in the handicraft industry. The use of minors is common in this informal sector of the economy, which includes rug making, ceramics, wood working, and leather goods. Children are also employed informally as domestics and usually receive little remuneration. Child labor laws are generally well observed in the industrialized, unionized sector of the economy but not in the informal sector. In September 1998, the Government of Morocco adopted the International Labor Organization's Convention 138 on the prohibition of child labor.

e. Acceptable Conditions of Work: The minimum wage is about \$180 a month and is not considered adequate to provide a decent standard of living for a worker and his or her family. However, this figure is above the per capita income. The minimum wage is not enforced effectively in the informal sector of the economy. It is enforced fairly well throughout the industrialized, unionized sectors where most workers earn more than the minimum wage. They are generally paid between 13 and 16 months salary, including bonuses, each year.

The law provides for a 48-hour maximum workweek with not more than 10 hours any single day, premium pay for overtime, paid public and annual holidays, and minimum conditions for health and safety, including the prohibition of night work for women and minors. As with other regulations and laws, these are not universally observed in the informal sector.

f. Rights in Sectors with U.S. Investment: Worker rights in sectors with U.S. investment, all of which is in the formal, industrial sector of the Moroccan economy, do not differ from those described above.

**Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad
on an Historical Cost Basis -- 1998**

(Millions of U.S. Dollars)

Category	Amount
Petroleum	16
Total Manufacturing	52
Food & Kindred Products	30
Chemicals & Allied Products	21
Primary & Fabricated Metals	2
Industrial Machinery and Equipment	0
Electric & Electronic Equipment	0
Transportation Equipment	(2)
Other Manufacturing	-2
Wholesale Trade	(1)
Banking	(1)
Finance/Insurance/Real Estate	0
Services	0
Other Industries	0
TOTAL ALL INDUSTRIES	86

(1) Suppressed to avoid disclosing data of individual companies.

(2) Less than \$500,000 (+/-).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.